the impact of the 1985 and 1986 budgets on disposable income

national council of welfare

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Canada

THE IMPACT OF THE 1985 AND 1986 BUDGETS ON DISPOSABLE INCOME

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INTRODUCTION

Last July the National Council of Welfare published Giving and Taking: The May 1985 Budget and the Poor. The report explained the effects of the federal Budget's proposed changes to elderly and child benefits and to sales and income taxes on low, middle and upper-income families and individuals.

The February 1986 Budget announced additional changes to taxes and child benefits. To properly assess the impact of these measures, we must look at how they combine with those from the previous Budget.

This background paper analyzes the effect of the 1985 and 1986 Budgets on the disposable income of Canadians at different income levels, with emphasis on those below the poverty line. By 'disposable income' we mean income from earnings, family allowances and sales and child tax credits less federal and provincial income taxes, Canada/Quebec Pension Plan contributions and unemployment insurance premiums. ('Income after taxes' and 'net income' are other terms for the same concept.)

Before turning to the findings, we briefly review the various changes made to taxes and child benefits in the last two Budgets.

CHANGES TO TAXES AND TRANSFERS

a. income taxes

The May 1985 Budget eliminated the federal tax reduction, a form of tax relief for lower and middle-income taxpayers which would have paid up to $50 per individual and $100 per family this year. It shifted the personal income tax system from full to partial indexation: Starting in 1986, personal exemptions (the basic personal exemption, married or equivalent exemption and age exemption) and tax brackets (the blocks of income that are taxed at progressively higher rates, ranging this tax year from 6 percent of the first $1,308 of taxable income to 34 percent of taxable income over $15,565) are being indexed only by the amount that inflation exceeds 3 percent a year. The Budget introduced a $500,000 lifetime exemption on capital gains and raised the tax deduction limits for contributions to private pension plans and Registered Retirement Savings Plans: In both cases, increases are to be phased in over the next several years and will not take full effect until 1990. A surtax on high-income taxpayers was imposed from July 1985 to December 1986; the surtax takes 5 percent of basic federal tax between $6,000 and $15,000 and 10 percent of basic federal tax over $15,000.

The February 1986 Budget imposed a 3 percent surtax on basic federal tax for all taxpayers, rich and poor alike. The new tax comes into effect July 1, 1986. Unlike the high-income surtax, which expires the end of this year, the 3 percent general surtax would appear to be permanent.[1]

b. sales and excise taxes

The May 1985 Budget extended a one percentage point increase in federal sales tax rates that was to have ended on December 31, 1988 and raised them by another percentage point to 7 percent on construction materials and cable and pay television services, 14 percent for alcoholic beverages and tobacco, and 11 percent for other taxable goods. Certain

items, such as candy and confectionery and some health products, were made subject to federal sales tax. Excise taxes on cigarettes, alcohol, tobacco and motive fuels were increased.

The February 1986 Budget raised the federal sales tax by another percentage point (to 8 percent, 15 percent and 12 percent, respectively for the categories listed in the previous paragraph) effective April 1, 1986. Excise taxes and duties on alcohol went up another 4 percent and on tobacco products by 6 percent as of February 27, 1986.

c. refundable sales tax credit

The 1986 Budget also introduced a welcome and important innovation in the form of a refundable sales tax credit worth $50 per adult and $25 per child for low-income Canadians. The maximum sales tax credit goes to those with net family income under $15,000 and is reduced by 5 percent of net family income above $15,000.

The first sales tax credits will be paid early in 1987, after taxfilers send in their 1986 tax returns. Some 4 million families and individuals will be eligible for the credit and close to 90 percent will get the maximum payment. The sales tax credit will cost the federal government an estimated $200 million in the 1986-87 fiscal year, $330 million in 1987-88 and $360 million in 1990-91. (Ottawa will more than make up for these expenditures with the 3 percent surtax alone, which will collect an estimated $560 million in 1986-87, $1.05 billion in 1987-88 and $1.4 billion in 1990-91).

Table 1 shows the refundable sales tax credit payable to families and individuals at different income levels. An eligible single Canadian gets up to $50 a year. A single parent with one child, for example, can get as much as $75. The maximum sales tax credit for a couple with two children is $150. The credit is reduced by 5 cents for every dollar above $15,000 and disappears past a certain point (e.g., $18,000 in net income for a couple with two children).

Table 1

Federal Sales Tax Credits, By Type and Size of Family, 1986 Taxation Year

		Couple: number of children under age 18				
Net Family Income[1]	Single Person	None	One	Two	Three	Four
$15,000 or less	$ 50	$ 100	$ 125	$ 150	$ 175	$ 200
16,000	0	50	75	100	125	150
17,000	0	0	25	50	75	100
18,000	0	0	0	0	25	50
19,000	0	0	0	0	0	0
		Single Parent: number of children under age 18				
Net Family Income			One	Two	Three	Four
$15,000 or less			$ 75	$ 100	$ 125	$ 150
16,000			25	50	75	100
17,000			0	0	25	50
18,000			0	0	0	0

1. Total family income less employment expense deductions, C/QPP contributions and unemployment insurance premiums, union dues, and allowable child care expenses.

Like the child tax credit, the sales tax credit calculates its benefits on the basis of net family income. 'Net family income' is total family income less employment expense deductions, Canada/Quebec Pension Plan contributions, unemployment insurance premiums, Registered Pension Plan and RRSP contributions, child care expenses eligible for the child care expenses deduction, union or professional association dues and allowable business investment losses. Most employed applicants eligible for the sales tax credit will only be able to deduct their C/QPP contributions, unemployment insurance premiums and, for union members, union dues; lower-income Canadians generally do not belong to private pension plans, contribute to RRSPs, claim child care expenses or incur business investment losses.

Because of these deductions, the actual (gross) income levels for receipt of maximum and partial sales tax credits are somewhat higher than the net family incomes listed in Table 1 would indicate. Table 2 looks at two-earner couples, single parents and single persons. Childless couples with gross income up to $16,607 qualify for the maximum sales tax credit of $100 in the current tax year and a partial credit is payable to those with gross incomes in the $16,608 to $18,673 range. Thus all childless couples with incomes below the low-income line (an estimated $14,081 for a two-person family living in a metropolitan area) will receive the maximum sales tax credit of $100, and those with incomes up to $4,592 above the line qualify for a partial payment.

A two-earner couple supporting one child on an income of $16,975 or less will receive the maximum sales tax credit of $125 and partial payments are available up to $19,562; since the estimated poverty line is $18,836 for a three-person family living in a city of 500,000 or more, all low-income families of this type will get either a maximum or partial credit. However eligibility for partial benefits ends below the low-income line for two-earner couples with two or more children, and the gap between the cutoff point for the sales tax credit and the poverty line widens with increasing family size. The cutoff point for partial credits for a couple with four children, for instance, is $22,230, which is only 81 percent of the low-income line.

Table 2

Income Cutoffs for Maximum and Partial Sales Tax Credits, by Type and Size of Family, 1986 Taxation Year

	Maximum Sales Tax Credit	Gross Income Cutoffs: For Maximum Credit	As Percentage of Poverty Line	For Partial Credit	As Percentage of Poverty Line	Poverty Line
Two-Earner Couple no. of children						
0	$ 100	$16,607	118%	$18,673	133%	$14,081
1	125	16,975	90	19,562	104	18,836
2	150	17,342	80	20,451	94	21,705
3	175	17,710	70	21,340	84	25,294
4	200	18,077	65	22,230	81	27,626
Single Parent no. of children						
1	75	16,502	118	18,046	128	14,081
2	100	16,869	90	18,935	101	18,836
3	125	17,237	80	19,824	91	21,705
4	150	17,606	68	20,714	80	25,294
Single Person	50	16,134	151	17,156	161	10,673

1. Gross income is earnings and child benefits.
2. A couple with two children qualifies for the maximum sales tax credit ($150) if its total income is $17,342 or less and no longer qualifies for partial credits if its income is $20,452 or more.

All low-income single parents with one child qualify for the full sales tax credit, worth $75 a year in their case. All low-income single parents with two children will receive a credit, and most will get the maximum amount of $100 ($50 for the adult, $25 for each child). For those supporting three children, eligibility for partial benefits ends at gross income of $19,824, which is 91 percent of the poverty line for a metropolitan center like Vancouver, Toronto or Montreal.

The refundable sales tax credit will benefit all low-income single Canadians and many who are above the poverty line but still live on modest incomes. Table 2 shows that the income cutoff for the maximum sales tax credit of $50 is $16,134 in 1986, a level substantially above the estimated low-income line of $10,673 for a city of 500,000 or more. Eligibility for partial benefits ends at $17,156, which is $6,483 above the poverty line.

The February 1986 Budget does not say whether or not the federal sales tax credit, and the $15,000 net family income limit for full benefits, will be indexed in some manner. (As explained below, the child tax credit will be indexed to the amount that inflation exceeds 3 percent a year). Without some form of inflation protection, fewer and fewer Canadians will qualify for the sales tax credit as the years go by and the real value of the credit will decline steadily.

d. child benefits

The May 1985 Budget announced a series of modifications to federal child benefits. From 1986 on, the family allowance will be indexed each year to the amount of inflation over 3 percent, no longer to the full increase in the cost of living. The child tax credit will be raised from its 1985 maximum payment of $384 per child to $454 for the 1986 tax year, $489 in 1987 and $524 in 1988; from 1989 on, the child tax credit will be limited to the same inflation-over-3 percent indexation factor as the family allowance. The 'turnover point' (the level of net family income

above which the child tax credit is reduced by 5 cents for every dollar) was lowered from $26,330 to $23,500 for the 1986 taxation year and thereafter will be indexed by the amount of inflation over 3 percent. The children's tax exemption will be reduced from its current amount of $710 per child to $560 in the 1987 taxation year, $470 in 1988 and the amount of the family allowance starting in 1989.

Giving and Taking: the May 1985 Budget and the Poor argued that, despite the increase in the child tax credit, many poor and all middle-income families with children will receive lower net child benefits as a result of the partial indexation of family allowances and the reduction in the children's tax exemption. The losses will mount with each passing year. After the various changes are fully phased in by 1990, all families - the poorest included - will get less than they would without the 1985 Budget's changes because the federal child benefits system will fail to keep pace with inflation.

The February 1986 Budget made a change in the payment schedule for the child tax credit. Since its inception in 1978, the child tax credit has been paid once a year. Eligible families have received their child tax credit after they filed their tax return, which means that the credit for the 1986 tax year normally would be delivered early in 1987. Beginning this year, however, families with incomes of $15,000 or less will get a pre-payment of their 1986 child tax credit of $300 per child in November and the rest ($154 per child this tax year) next year. Close to a million families will be eligible for the pre-payment.

THE IMPACT OF THE BUDGETS ON DISPOSABLE INCOME

The graphs and tables that follow show the net effect of the 1985 and 1986 Budgets together on the disposable income of families and individuals at different income levels. The analysis takes into account the following changes: the partial indexation of family allowances, the gradual increase in the child tax credit and the lowering and partial indexation of its turnover point, the gradual decrease in the children's tax exemption, the partial indexation of personal tax exemptions and tax brackets, the elimination of the federal income tax reduction, the raise in tax deduction limits for private pension plan and RRSP contributions, the imposition of federal surtaxes and the introduction of the refundable sales tax credit. We do not include the $500,000 lifetime capital gains exemption or the impact of increases in federal sales and excise taxes (which affect the cost of a number of goods and services but not the disposable income of families and individuals). All figures have been converted to constant (1986) dollars so that we can discern real changes in taxes, benefits and income. Other assumptions are given in the footnotes.[2]

The analysis looks at Canadians who obtain most of their income from employment earnings. Families and individuals with earnings below the poverty line are 'working poor', a group that makes up close to half of the low-income population.

To assess the Budgets' effects on very poor Canadians, we include families and individuals with no earnings. Almost all of these people in fact would depend on provincial social assistance (welfare) for most of their income. This paper does not examine changes in welfare rates, which in any event are not directly affected by the federal Budgets. Keep in mind, then, that all figures for families and single persons with no earnings include only the federal sales tax credit and, for families, the child tax credit and family allowances.

a. two-earner couples (Tables 3 and 4, Figures A and B)

Table 3 and Figures A and B chart the impact of the 1985 and 1986 Budgets on the disposable income of two-earner couples with two children. For each year from 1986 through 1990, each family's disposable income before the two Budgets is substracted from its disposable income after the Budgets. In other words, we compare each family's after-tax income as it will be with what it would have been if the various measures in the last two federal Budgets had not been enacted.

The last column in Table 3 gives the total change in disposable income over the next five years and expresses the amount as a percentage of family earnings over the same period. Among the earnings levels shown, the upper-middle income ($50,000) family experiences the largest loss in disposable income - $4,600 - over the five-year period. (We estimate that the average income for a couple with two children and employment earnings as its major source of income is $40,800 in 1986). Very poor families with incomes less than half the poverty line come out ahead by $758 but other low-income families lose substantial amounts of income. A two-earner couple supporting two children on earnings equal to three-quarters the estimated poverty line ($16,280) will lose over $1,200 while a family with combined spouses' earnings at the low-income line ($21,700) is behind by more than $2,100. A couple earning $25,000 loses $2,500 in disposable income.

Note that the high-income couple with $100,000 loses only $2,182 - significantly **less** than middle-income families. In fact the family earning just $21,700 loses about the same amount of disposable income (close to $2,200) as the $100,000 family which earns five times as much.

Measuring losses as a percentage of earnings, the families at $21,700, $25,000 and $30,000 are hardest hit: Their overall losses in disposable income amount to 2 percent of cumulative family earnings. The

average-income ($40,000) couple's total loss in disposable income comes to 1.9 percent of total earnings. The $100,000 family's $2,182 loss represents a negligeable 0.4 percent of its earnings from 1986 to 1990.

What explains these results? The 1985 and 1986 Budgets made a number of changes to taxes and child benefits, some of which increase disposable income, others the opposite. Table 4 disentangles these factors as they affect low-income couples with children.

Let's look first at the two-earner family earning $10,850. This is a low wage by anyone's standard; it represents half the poverty line for a metropolitan area and little more than one-quarter of the average income for a couple with two children.

In 1986 the family gets $23 less in family allowances than it would if the government had not chosen to partially index benefits. Because of the elimination of the federal tax reduction, the imposition of a 3 percent surtax and the partial indexation of the tax system, the couple moves above the federal taxpaying threshold and pays $35 more in federal and provincial taxes. The $23 loss in family allowances and $35 tax increase mean that the family loses $58 in disposable income in 1986.

The same poor family gains $60 in child benefits in 1987 because the increase in its child tax credit is more than the loss in the family allowance. The couple pays $85 more in income taxes. However it now gets a refundable sales tax credit of $145 in respect of the 1986 taxation year. In the end, the couple is $120 ahead as a result of the two Budgets. (Remember that these figures have been converted to constant 1986 dollars to permit valid comparisons over time).

The family is $52 ahead of the game in 1988. However starting in 1989, its income tax increases more than offset its child benefit and sales tax credit gains. The poor couple's disposable income in 1989 is $48 less than it would be without the 1985 and 1986 Budgets, and the loss rises to $167 in 1990. The various gains and losses from 1986 through 1990 produce an overall $101 loss in disposable income for the five years.

Table 3

Impact of 1985 and 1986 Budgets on Disposable Income, Two-Earner Couple With Two Children, by Family Earnings, 1986-1990

Change in Disposable Income,[1] Constant (1986) Dollars

Family Earnings	1986	1987	1988	1989	1990	Total	As Percentage of Family Earnings[2]
$ 0	$ - 23	$ + 204	$ + 207	$ + 212	$ + 158	$ + 758	-
½ poverty line ($10,850)	- 58	+ 120	+ 52	- 48	- 167	- 101	- 0.2%
¾ poverty line ($16,280)	- 179	- 110	- 218	- 316	- 425	- 1,248	- 1.5
poverty line ($21,700)	- 226	- 329	- 436	- 538	- 647	- 2,177	- 2.0
$25,000	- 237	- 367	- 500	- 633	- 764	- 2,501	- 2.0
$30,000	- 257	- 533	- 634	- 737	- 844	- 3,006	- 2.0
$40,000	- 323	- 667	- 822	- 962	- 1,107	- 3,881	- 1.9
$50,000	- 374	- 739	- 978	- 1,186	- 1,325	- 4,602	- 1.8
$80,000	- 636	- 118	- 487	- 807	- 1,048	- 3,096	- 0.8
$100,000	- 503	+ 118	- 284	- 628	- 885	- 2,182	- 0.4

1. Family earnings plus family allowances, child tax credit and sales tax credit less federal and provincial income taxes, C/QPP contributions and unemployment insurance premiums. Figures for families with no earnings include federal child benefits and the sales tax credit only and do not include provincial social assistance.
2. Total change in disposable income divided by total family earnings from 1986 to 1990.
3. Figures preceded by positive signs mean more, those by negative signs less.

Table 4

Impact of 1985 and 1986 Budgets on Disposable Income, Low-Income Two-Earner Couples With Two Children, 1986-1990

Constant (1986) Dollars

Family Earnings	1986	1987	1988	1989	1990	Total
½ poverty line ($10,850)						
FA/CTC[1]	$ - 23	$ + 60	$ + 68	$ + 78	$ + 29	$ + 211
sales tax credit	n.a.	+ 145	+ 139	+ 134	+ 128	+ 546
income taxes	+ 35	+ 85	+ 155	+ 260	+ 324	+ 859
disposable income[2]	**- 58**	**+ 120**	**+ 52**	**- 48**	**- 167**	**- 101**
¾ poverty line ($16,280)						
FA/CTC	- 23	+ 60	+ 68	+ 78	+ 29	+ 211
sales tax credit	n.a.	+ 123	+ 93	+ 64	+ 36	+ 316
income taxes	+ 156	+ 293	+ 379	+ 458	+ 490	+ 1,776
disposable income	**- 179**	**- 110**	**- 218**	**- 316**	**- 425**	**- 1,248**
poverty line ($21,700)						
FA/CTC	- 23	+ 60	+ 68	+ 78	+ 29	+ 211
sales tax credit	n.a.	0	0	0	0	0
income taxes	+ 203	+ 389	+ 504	+ 616	+ 676	+ 2,388
disposable income	**- 226**	**- 329**	**- 436**	**- 538**	**- 647**	**- 2,177**

1. Gross family allowances and child tax credit.
2. Family earnings plus family allowances, child tax credit and sales tax credit less federal and provincial income taxes, C/QPP contributions and unemployment insurance premiums.
3. Figures preceded by positive signs mean more, those by negative signs less.

Figure A

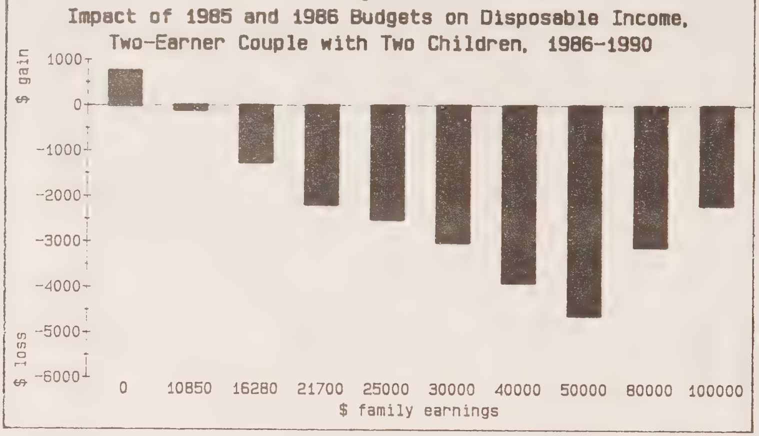
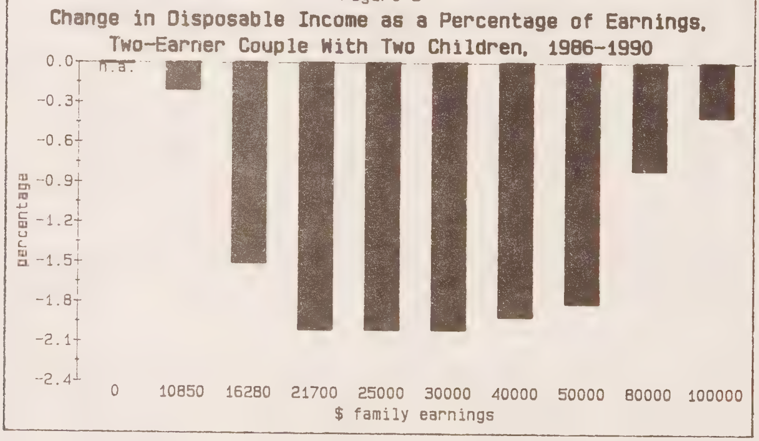


Figure B



The two-earner couple raising two children on earnings of $16,280 (three-quarters the low-income line and less than half of average income) loses $1,248 in disposable income from 1986 through 1990. It receives a total of $211 more in child benefits from 1986 through 1990 thanks to the May 1985 Budget's decision to raise the child tax credit, which more than makes up for its loss in family allowances. The couple also benefits from the February 1986 Budget's introduction of a refundable sales tax credit, to the tune of $316 in total. However the income tax changes, which raise federal and provincial taxes by $1,776, counteract the family's child benefit and sales tax credit gains, so in the end it loses $1,248 in disposable income.

The couple with earnings equal to the low-income line ($21,700) does not qualify for the refundable sales tax credit because its net income is too high. It pays $2,388 more in income taxes over the next five years and gains $211 in child benefits. As a result, the family loses a total of $2,177.

The same factors explain the losses in disposable income for the other families shown in Table 3. However the increased taxes on middle and upper-income families are partially offset by tax savings due to increased deductions for private pension plan and RRSP contributions. Because tax deductions pay larger benefits to higher-income taxfilers, the $100,000 couple in our example ends up losing relatively little disposable income over the five-year period. However its losses mount from 1988 on as tax increases from partial indexation and the 3 percent surtax exceed tax savings from higher pension savings deductions.

b. one-earner couples (Tables 5 and 6, Figures C and D)

The Budgets' impact on one-earner couples with two children is detailed in Tables 5 and 6 and Figures C and D. Among the families shown in Table 5, the family with earnings about the average ($40,000 in 1986) suffers the largest loss in disposable income - $4,644 from 1986 to 1990. The poorest families, who do not pay income tax, come out $758 ahead thanks

to child tax credit increases and the introduction of the refundable sales tax credit. At the other end of the income spectrum, the $100,000 family actually **gains** $517 in disposable income as a result of larger tax breaks from higher private pension and RRSP deduction limits. Working poor and middle-income families lose more in percentage terms than affluent families earning $80,000 and up.

Table 6 breaks the figures down for low-income couples. Again, gains from the sales tax credit and higher child tax credit are gobbled up by increases in income taxes. A one-earner couple earning half the poverty line loses more than $900 in disposable income over the next five years. The losses total over $1,700 and $2,300 for families earning three-quarters and the full poverty line, respectively.

c. single parents (Tables 7 and 8, Figures E and F)

The picture is much the same for single parents. Only those at the bottom and top of the income ladder come out ahead as a result of the 1985 and 1986 Budgets. As a percentage of earnings, the single parent supporting two children on $35,000 is hit hardest, its $3,280 loss amounting to 1.9 percent of earnings from 1986 through 1990. All working poor single parents lose disposable income. The one-parent family living on just $14,130 (three-quarters the low-income line) loses close to $1,000 in disposable income, while the $80,000 family (a rarity among single parents, to be sure) gains $777.

d. single persons (Tables 9 and 10, Figures G and H)

Finally, Tables 9 and 10 and Figures G and H look at single Canadians. The very poor and the very affluent benefit from the two Budgets: Everyone else is worse off, including those below the poverty line. Losses in disposable income as a percentage of earnings are highest for single Canadians earning just $8,000 in 1986; their $679 loss in disposable income represents 1.7 percent of earnings from 1986 to 1990.

Table 5

Impact of 1985 and 1986 Budgets on Disposable Income,
One-Earner Couple With Two Children, by Family Earnings, 1986-1990

Change in Disposable Income,[1] Constant (1986) Dollars

Family Earnings	1986	1987	1988	1989	1990	Total	As Percentage of Family Earnings[2]
$ 0	$ - 23	$ + 204	$ + 207	$ + 212	$ + 158	$ + 758	-
½ poverty line ($10,850)	- 135	- 40	- 141	- 238	- 350	- 905	- 1.7%
¾ poverty line ($16,280)	- 205	- 198	- 322	- 446	- 575	- 1,746	- 2.1
poverty line ($21,700)	- 226	- 367	- 474	- 579	- 689	- 2,334	- 2.2
$25,000	- 244	- 454	- 591	- 726	- 840	- 2,855	- 2.3
$30,000	- 253	- 602	- 736	- 867	- 994	- 3,452	- 2.3
$40,000	- 346	- 837	- 1,000	- 1,159	- 1,302	- 4,644	- 2.3
$50,000	- 366	- 867	- 296	- 595	- 809	- 2,933	- 1.2
$80,000	- 132	+ 391	- 42	- 453	- 766	- 1,002	- 0.3
$100,000	- 155	+ 779	+ 345	- 68	- 383	+ 517	+ 0.1

1. Family earnings plus family allowances, child tax credit and sales tax credit less federal and provincial income taxes, C/QPP contributions and unemployment insurance premiums. Figures for families with no earnings include federal child benefits and the sales tax credit and do not include provincial social assistance.
2. Total loss in disposable income divided by total family earnings from 1986 to 1990.
3. Figures preceded by positive signs mean more, those by negative signs loss.

Table 6

Impact of 1985 and 1986 Budgets on Disposable Income, Low-Income One-Earner Couples With Two Children, 1986-1990

	Constant (1986) Dollars					
Family Earnings	1986	1987	1988	1989	1990	Total
½ poverty line ($10,850)						
FA/CTC[1]	$ - 23	$ + 60	$ + 68	$ + 78	$ + 29	$ + 211
sales tax credit	n.a.	+ 145	+ 139	+ 134	+ 128	+ 546
income taxes	+ 113	+ 245	+ 348	+ 450	+ 508	+ 1,664
disposable income[2]	**- 135**	**- 40**	**- 141**	**- 239**	**- 350**	**- 906**
¾ poverty line ($16,280)						
FA/CTC	- 23	+ 60	+ 68	+ 78	+ 29	+ 211
sales tax credit	n.a.	+ 102	+ 73	+ 45	+ 18	+ 238
income taxes	+ 182	+ 360	+ 463	+ 568	+ 622	+ 2,195
disposable income	**- 205**	**- 198**	**- 322**	**- 446**	**- 575**	**- 1,746**
poverty line ($21,700)						
FA/CTC	- 23	+ 60	+ 68	+ 78	+ 29	+ 211
sales tax credit	n.a.	0	0	0	0	0
income taxes	+ 203	+ 426	+ 542	+ 657	+ 718	+ 2,547
disposable income	**- 226**	**- 366**	**- 474**	**- 580**	**- 689**	**- 2,335**

1. Gross family allowances and child tax credit.
2. Family earnings plus family allowances, child tax credit and sales tax credit less federal and provincial income taxes, C/QPP contributions and unemployment insurance premiums.
3. Figures preceded by positive signs mean more, those by negative signs less.

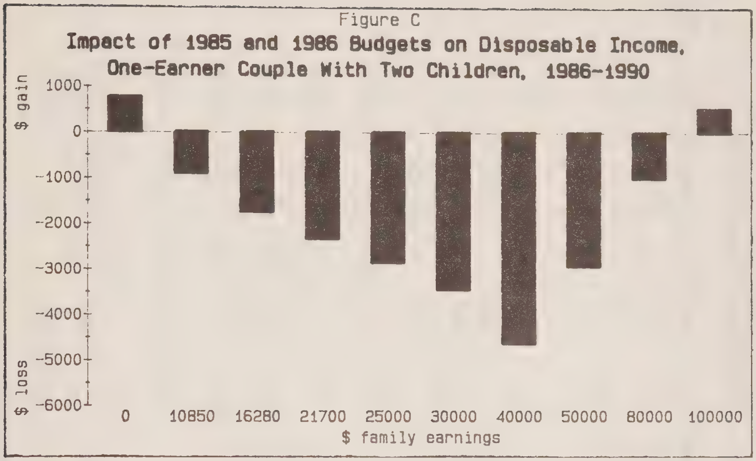


Figure C
Impact of 1985 and 1986 Budgets on Disposable Income,
One-Earner Couple With Two Children, 1986-1990
$ gain
$ loss
1000
0
-1000
-2000
-3000
-4000
-5000
-6000
0
10850
16280
21700
25000
30000
40000
50000
80000
100000
$ family earnings

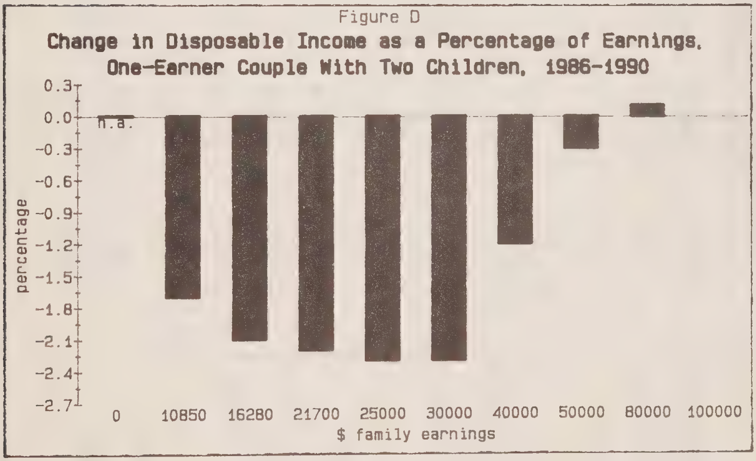


Figure D
Change in Disposable Income as a Percentage of Earnings,
One-Earner Couple With Two Children, 1986-1990
percentage
0.3
0.0
-0.3
-0.6
-0.9
-1.2
-1.5
-1.8
-2.1
-2.4
-2.7
n.a.
0
10850
16280
21700
25000
30000
40000
50000
80000
100000
$ family earnings

Table 7

Impact of 1985 and 1986 Budgets on Disposable Income,
Single Parent With Two Children, by Family Earnings, 1986–1990

Family Earnings	Change in Disposable Income,[1] Constant (1986) Dollars						
	1986	1987	1988	1989	1990	Total	As Percentage of Family Earnings[2]
$ 0	$ - 23	$ + 156	$ + 161	$ + 167	$ + 115	$ + 576	-
½ poverty line ($ 9,420)	- 76	+ 71	+ 20	- 32	- 157	- 174	- 0.4%
¾ poverty line ($14,130)	- 147	- 83	- 161	- 216	- 354	- 961	- 1.4
poverty line ($18,840)	- 170	- 225	- 308	- 364	- 492	- 1,559	- 1.7
$20,000	- 173	- 232	- 314	- 370	- 503	- 1,592	- 1.6
$25,000	- 196	- 314	- 430	- 525	- 683	- 2,148	- 1.7
$30,000	- 217	- 475	- 584	- 667	- 826	- 2,769	- 1.8
$35,000	- 254	- 553	- 691	- 799	- 983	- 3,280	- 1.9
$40,000	- 298	- 631	- 769	- 876	- 1,041	- 3,615	- 1.8
$50,000	- 681	+ 155	- 97	- 331	- 583	- 1,538	- 0.6
$80,000	- 160	+ 781	+ 398	+ 58	- 300	+ 777	+ 0.2

1. Family earnings plus family allowances, child tax credit and sales tax credit less federal and provincial income taxes, C/QPP contributions and unemployment insurance premiums. Figures for families with no earnings include federal child benefits and the sales tax credit and do not include provincial social assistance.
2. Total loss in disposable income divided by total family earnings from 1986 to 1990.
3. Figures preceded by positive signs mean more, those by negative signs less.

Table 8

Impact of 1985 and 1986 Budgets on Disposable Income, Low-Income Single Parents With Two Children, 1986-1990

Family Earnings	1986	1987	1988	1989	1990	Total
	Constant (1986) Dollars					
½ poverty line ($ 9,420)						
FA/CTC[1]	$ - 23	$ + 60	$ + 68	$ + 78	$ + 29	$ + 212
sales tax credit	n.a.	+ 96	+ 93	+ 89	+ 86	+ 364
income taxes	+ 53	+ 85	+ 140	+ 199	+ 272	+ 749
disposable income[2]	**- 76**	**+ 71**	**+ 20**	**- 32**	**- 157**	**- 174**
¾ poverty line ($14,130)						
FA/CTC	- 23	+ 60	+ 68	+ 78	+ 29	+ 211
sales tax credit	n.a.	+ 96	+ 93	+ 89	+ 73	+ 351
income taxes	+ 124	+ 239	+ 322	+ 383	+ 456	+ 1,524
disposable income	**- 147**	**- 83**	**- 161**	**- 216**	**- 354**	**- 961**
poverty line ($18,840)						
FA/CTC	- 23	+ 60	+ 68	+ 78	+ 29	+ 211
sales tax credit	n.a.	0	0	0	0	0
income taxes	+ 147	+ 284	+ 376	+ 442	+ 521	+ 1,770
disposable income	**- 170**	**- 225**	**- 308**	**- 364**	**- 492**	**- 1,559**

1. Gross family allowances and child tax credit.

2. Family earnings plus family allowances, child tax credit and sales tax credit less federal and provincial income taxes, C/QPP contributions and unemployment insurance premiums.

3. Figures preceded by positive signs mean more, those by negative signs less.

Figure E

Impact of 1985 and 1986 Budgets on Disposable Income, Single Parent With Two Children, 1986-1990

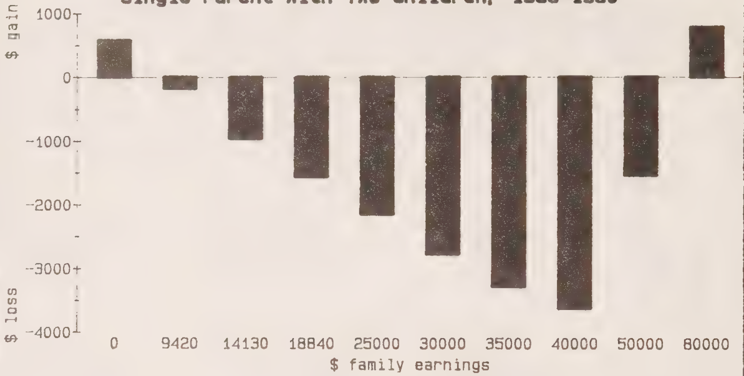


Figure F

Change in Disposable Income as a Percentage of Earnings, Single Parent With Two Children, 1986-1990

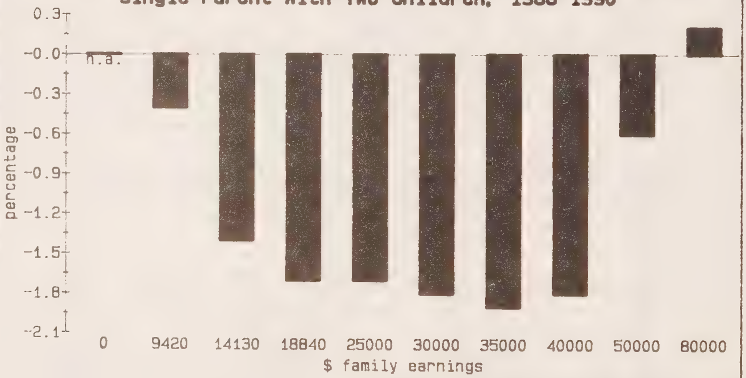


Table 9

Impact of 1985 and 1986 Budgets on Disposable Income, Single Canadians, by Earnings, 1986-1990

Earnings	Change in Disposable Income,[1] Constant (1986) Dollars						
	1986	1987	1988	1989	1990	Total	As Percentage of of Earnings[2]
$ 0	$ 0	$ + 48	$ + 46	$ + 45	$ + 43	$ + 182	-
½ poverty line ($ 5,340)	- 33	+ 4	- 10	- 22	- 35	- 96	- 0.4%
¾ poverty line ($ 8,005)	- 95	- 92	- 128	- 165	- 199	- 679	- 1.7
poverty line ($10,670)	- 106	- 113	- 154	- 194	- 232	- 799	- 1.5
$15,000	- 123	- 147	- 192	- 238	- 301	- 1,001	- 1.3
$20,000	- 144	- 238	- 289	- 340	- 388	- 1,399	- 1.4
$25,000	- 189	- 328	- 408	- 487	- 561	- 1,973	- 1.6
$30,000	- 199	- 348	- 427	- 529	- 624	- 2,127	- 1.4
$40,000	- 244	- 418	- 523	- 626	- 723	- 2,534	- 1.3
$50,000	- 485	+ 258	+ 90	- 80	- 241	- 458	- 0.2
$80,000	- 235	+ 950	+ 672	+ 392	+ 123	+ 1,901	+ 0.5

1. Earnings plus sales tax credit less federal and provincial income taxes, C/QPP contributions and unemployment insurance premiums. Figures for single persons with no earnings include the federal sales tax credit and do not include provincial social assistance.
2. Total change in disposable income divided by total earnings from 1986 to 1990.
3. Figures preceded by positive signs mean more, those by negative signs less.

Table 10

Impact of 1985 and 1986 Budgets on Disposable Income, Low-Income Single Canadians, 1986-1990

Earnings	Constant (1986) Dollars					
	1986	1987	1988	1989	1990	Total
½ poverty line ($ 5,340)						
sales tax credit	n.a.	+ 48	+ 46	+ 45	+ 43	$ + 182
income taxes	+ 33	+ 44	+ 56	+ 67	+ 78	+ 278
disposable income[1]	**- 33**	**+ 4**	**- 10**	**- 22**	**- 35**	**- 96**
¾ poverty line ($ 8,005)						
sales tax credit	n.a.	+ 48	+ 46	+ 45	+ 43	+ 182
income taxes	+ 95	+ 140	+ 174	+ 210	+ 242	+ 861
disposable income	**- 95**	**- 92**	**- 128**	**- 165**	**- 199**	**- 679**
poverty line ($10,670)						
sales tax credit	n.a.	+ 48	+ 46	+ 45	+ 43	+ 182
income taxes	+ 106	+ 161	+ 200	+ 239	+ 275	+ 981
disposable income	**- 106**	**- 113**	**- 154**	**- 194**	**- 232**	**- 799**

1. Earnings plus sales tax credit less federal and provincial income taxes, C/QPP contributions and unemployment insurance premiums.

2. Figures preceded by positive signs mean more, those by negative signs less.

Figure G

Impact of 1985 and 1986 Budgets on Disposable Income, Single Canadians, 1986-1990

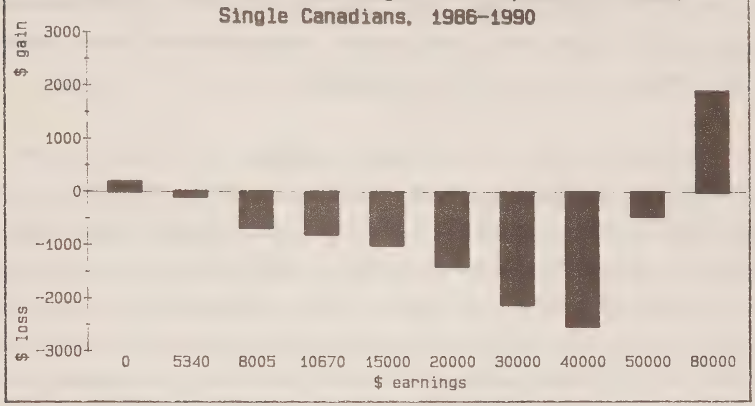
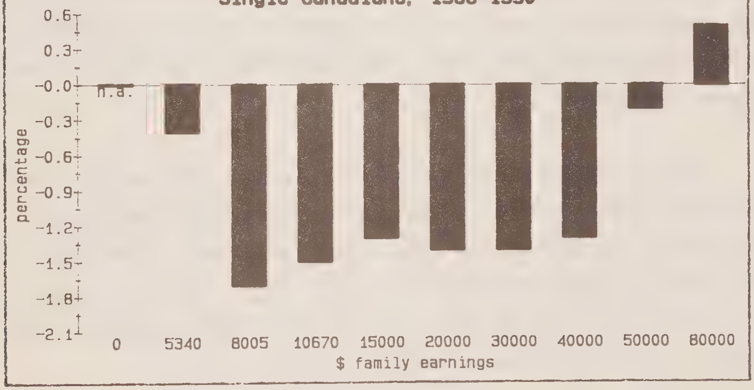


Figure H

Change in Disposable Income as a Percentage of Earnings, Single Canadians, 1986-1990



TRENDS IN DISPOSABLE INCOME AFTER THE TWO BUDGETS

The previous section analyzed the effects of the 1985 and 1986 Budgets by performing a 'before and after' comparison of child benefits, sales tax credits and income taxes and the disposable incomes that result. The tables that follow show real trends in disposable income after the two Budgets. Tables 11 to 14 give the results.

Table 11 looks at two-earner couples with two children. The only family which has a higher real disposable income in 1990 than in 1986 is the one with no earnings, which benefits from the sales tax credit and increases in the child tax credit. The reader should be cautioned, however, that in reality this family could end up with a lower real disposable income. A family with no earnings normally would depend on provincial social assistance (welfare) for most of its income, so its actual income over the next five years will hinge more on changes in social assistance benefits than on federal child benefits and sales tax credits. Most provinces do not index their welfare benefits which, as a result, often lag behind the cost of living. If, on the other hand, a province were to raise its social assistance rates above inflation, the family's actual disposable income could increase. If welfare recipients are to benefit from the new federal sales tax credit, it is important that the provincial governments not deduct this additional income from social assistance payments.

The other families see their disposable income decline, in most cases steadily from 1986 on. The couples earning one-half and three-quarters the low-income line enjoy an increase from 1986 to 1987 thanks to the refundable sales tax credit (which is first received in 1987) and the boost to the child tax credit. After 1987, however, their real disposable incomes decline as well.

The last column on Table 11 compares real disposable income in 1990 with 1986. The percentage losses are not large. Middle-income families in the $30,000 to $40,000 range lose about 5 percent. The low-income couple earning just $16,280 gets 3.6 percent less in 1990 than 1986, whereas the $100,000 family loses only 3.1 percent. All things being equal, though, disposable incomes will continue their downward trend after 1990 due to the partial indexation of child benefits and the income tax system.

The trends are the same for one-earner couples, one-parent families and single Canadians. Tables 12 to 14 present the results. All but the poorest experience a modest but generally steady decline in their disposable income over the next five years. The reason is income tax increases, which offset any gains they may realize from improvements to child benefits and the introduction of the federal sales tax credit.

Table 11

Trends in Disposable Income, Constant (1986) Dollars,
Two-Earner Couple With Two Children, by Family Earnings, 1986-1990

Family Earnings	Disposable Income,[1] Constant (1986) dollars 1986	1987	1988	1989	1990	Percentage Change 1986/1990
$ 0	$ 1,526	$ 1,760	$ 1,764	$ 1,762	$ 1,700	+ 11.4%
½ poverty line ($10,850)	11,976	12,141	12,037	11,879	11,685	- 2.4
¾ poverty line ($16,280)	16,105	16,137	15,953	15,758	15,527	- 3.6
poverty line ($21,700)	20,061	19,907	19,697	19,475	19,213	- 4.2
$25,000	22,358	22,169	21,917	21,652	21,344	- 4.5
$30,000	25,773	25,364	25,078	24,783	24,443	- 5.2
$40,000	32,063	31,545	31,173	30,803	30,380	- 5.2
$50,000	39,239	38,726	38,276	37,846	37,423	- 4.6
$80,000	58,259	58,471	57,729	57,048	56,355	- 3.3
$100,000	70,968	71,213	70,355	69,589	68,800	- 3.1

1. Disposable income after 1985 and 1986 Budgets. Figures for family with no earnings show federal child benefits and sales tax credit but not provincial welfare payments ; all others include earnings and income taxes.

Table 12

Trends in Disposable Income, Constant (1986) Dollars, One-Earner Couple With Two Children, by Family Earnings, 1986-1990

Family Earnings	Disposable Income,[1] Constant (1986) dollars					Percentage Change
	1986	1987	1988	1989	1990	1986/1990
$ 0	$ 1,526	$ 1,760	$ 1,764	$ 1,762	$ 1,700	+ 11.4%
½ poverty line ($10,850)	11,826	11,907	11,768	11,612	11,420	- 3.4
¾ poverty line ($16,280)	15,701	15,682	15,488	15,269	15,019	- 4.3
poverty line ($21,700)	19,443	19,268	19,077	18,857	18,600	- 4.3
$25,000	21,676	21,427	21,197	20,935	20,631	- 4.8
$30,000	25,786	25,341	25,047	24,718	24,354	- 5.6
$40,000	32,073	31,471	31,129	30,744	30,320	- 5.5
$50,000	38,172	37,563	37,937	37,389	36,866	- 3.4
$80,000	55,101	55,527	54,835	54,085	53,349	- 3.2
$100,000	65,014	65,838	65,118	64,326	63,530	- 2.3

1. Disposable income after 1985 and 1986 Budgets. Figures for family with no earnings show federal child benefits and sales tax credit but not provincial welfare payments; all others include earnings and income taxes.

Table 13

Trends in Disposable Income, Constant (1986) Dollars, Single Parent With Two Children, by Family Earnings, 1986-1990

Family Earnings	Disposable Income,[1] Constant (1986) Dollars					Percentage Change
	1986	1987	1988	1989	1990	1986/1990
$ 0	$ 1,526	$ 1,712	$ 1,717	$ 1,717	$ 1,657	+ 8.6%
½ poverty line ($ 9,420)	10,529	10,664	10,583	10,478	10,285	- 2.3
¾ poverty line ($14,130)	14,003	14,044	13,904	13,772	13,531	- 3.4
poverty line ($18,840)	17,273	17,181	17,016	16,865	16,612	- 3.8
$20,000	18,071	17,973	17,803	17,647	17,384	- 3.8
$25,000	21,463	21,290	21,064	20,852	20,514	- 4.4
$30,000	25,562	25,185	24,894	24,622	24,237	- 5.2
$35,000	28,759	28,316	27,977	27,666	27,257	- 5.3
$40,000	31,808	31,321	30,962	30,639	30,192	- 5.1
$50,000	37,594	38,255	37,737	37,264	36,713	- 2.3
$80,000	54,715	55,405	54,608	53,943	53,175	- 2.8

1. Disposable income after 1985 and 1986 Budgets. Figures for family with no earnings show federal child benefits and sales tax credit but not provincial welfare payments; all others include earnings and income taxes.

Table 14

Trends in Disposable Income, Constant (1986) Dollars, Single Canadians, by Earnings, 1986-1990

Family Earnings	Disposable Income,[1] Constant (1986) Dollars					Percentage Change
	1986	1987	1988	1989	1990	1986/1990
$ 0	$ 0	$ 48	$ 46	$ 45	$ 43	-
½ poverty line ($ 5,340)	5,117	5,145	5,115	5,077	5,031	- 1.7
¾ poverty line ($ 8,005)	7,180	7,171	7,102	7,025	6,938	- 3.4
poverty line ($10,670)	9,082	9,055	8,970	8,879	8,775	- 3.4
$15,000	12,085	12,027	11,919	11,807	11,658	- 3.5
$20,000	15,495	15,352	15,215	15,081	14,925	- 3.7
$25,000	18,809	18,611	18,423	18,244	18,039	- 4.1
$30,000	22,791	22,558	22,341	22,110	21,850	- 4.1
$40,000	29,333	29,038	28,758	28,500	28,203	- 3.9
$50,000	35,419	35,991	35,556	35,157	34,712	- 2.0
$80,000	51,993	52,916	52,232	51,648	50,997	- 1.9

1. Disposable income after 1985 and 1986 Budgets. Figures for single person with no earnings show sales tax credit only but not provincial welfare payments; all others include earnings and income taxes.

THE EFFECTS OF FEDERAL SALES TAX CHANGES

Both Budgets announced increases in federal sales and excise taxes, which in turn are passed on to consumers in the form of price increases. To ease the burden of these indirect taxes on low-income consumers, the February 1986 Budget introduced a refundable sales tax credit.

Sales and excise taxes are regressive, which means that they put their heaviest burden on the poor and take least in proportional terms from the rich. The new refundable sales tax credit, by contrast, is designed to help low-income Canadians only.

Table 15 estimates the effects of the sales and excise tax changes contained in the 1985 and 1986 Budgets on couples with two children. Table 16 looks at single mothers with two children. The estimates are for 1986 and include the refundable sales tax credit for the 1986 taxation year.[3]

The sales and excise tax changes cost couples with two children and $10,000 earnings an estimated $170 in 1986. As family earnings increase, so too does the cost of the tax changes since consumer expenditures rise with income. As a percentage of family earnings, however, the consumption tax increases hit the poorest families most and the affluent least. The figures range from 1.7 percent for the $10,000 couple to 0.9 percent for the $100,000 family. Table 15 gives the results.

The $10,000 and $15,000 families qualify for a $150 refundable sales tax credit in respect of the 1986 taxation year. This form of tax relief reduces their sales tax burden considerably, though it does not fully offset the cost of the consumption tax changes. As a result, the net cost to the $10,000 family is only $20 or 0.2 percent of earnings and the $15,000 family pays $65 more or 0.4 percent of its earnings. However the

$20,000 couple with two children - which earns below the estimated poverty line for a large city ($21,700) - still bears the highest sales tax burden because it does not qualify for the refundable sales tax credit.

Table 16 estimates the impact of the last two Budgets' sales and excise tax measures on single mothers with two children. Most one-parent families fall in the low to modest earnings range shown. The refundable sales tax credit eases the burden of sales and excise tax changes on the low-income single mothers. However those earning $20,000 (which is not that much above the estimated poverty line of $18,840 for a metropolitan center) do not qualify for a sales tax credit and so end up paying over $200 more this year in higher prices as a result of the two Budgets' changes to the federal sales and excise taxes.

Table 15

Estimated Impact of the 1985 and 1986 Budgets' Changes to Federal Sales and Excise Taxes, Couples With Two Children, by Family Earnings, 1986

Family Earnings	Cost of Tax Increases	Cost as % of Family Earnings	Sales Tax Credit	Net Cost	Net Cost as % of Family Earnings
$10,000	$ 170	1.7%	$ 150	$ 20	0.2%
$15,000	215	1.4	150	65	0.4
$20,000	269	1.3	0	269	1.3
$30,000	350	1.2	0	350	1.2
$40,000	424	1.1	0	424	1.1
$50,000	435	0.9	0	435	0.9
$75,000	661	0.9	0	661	0.9
$100,000	880	0.9	0	880	0.9

Table 16

Estimated Impact of the 1985 and 1986 Budgets' Changes to Federal Sales and Excise Taxes, Single Mother With Two Children, by Earnings, 1986

Family Earnings	Cost of Tax Increases	Cost as % of Family Earnings	Sales Tax Credit	Net Cost	Net Cost as % of Family Earnings
$ 5,000	$ 76	1.5%	$ 100	$ 24	0.5%
$10,000	152	1.5	100	52	0.5
$15,000	192	1.3	100	92	0.6
$20,000	241	1.2	0	241	1.2

THE EFFECTS OF THE TWO SURTAXES

The 1985 Budget imposed a surtax on higher-income taxpayers. The surtax is 5 percent of basic federal tax from $6,000 to $15,000 and 10 percent of basic federal tax above $15,000 and is in effect from July 1985 to December 1986. One-earner couples with two children, for instance, are subject to the 5 percent surtax if their family earnings in 1986 exceed $43,300, while those above $76,300 also pay the 10 percent surtax.

The 1986 Budget added another surtax of 3 percent of basic federal tax, effective July 1, 1986. This surtax affects all taxpayers, regardless of income, and contributes to the mounting income tax burden discussed earlier. The 3 percent surtax will collect substantial amounts of revenue - $560 million in 1986-87, $1.05 billion in 1987-88 and an estimated $1.4 billion in 1990-91.

Tables 17 to 20 show how much surtax families and individuals at different income levels will pay and how much they would pay if the high-income surtax had been extended instead of imposing a general 3 percent surtax. Because both surtaxes are in effect in 1986, we look at 1987 when only the 3 percent surtax applies in order to make a clear comparison. The 3 percent surtax is the actual measure and the high-income surtax is the option.

The 3 percent surtax affects all but the poorest two-earner couples with two children (since they are below the tax-paying threshold) listed on Table 17. If, instead, the Minister of Finance had decided to extend the high-income surtax rather than collect more from all taxpayers, all but the $80,000 and $100,000 couples would have been exempt. However even the upper-income two-earner couples will pay more to the 3 percent surtax than they would to a high-income surtax.

This is not the case, however, for high-income one-earner couples, single parents and single Canadians. Tables 18 to 20 show that they are better off under the existing system than if the high-income surtax were extended instead. For example, a one-earner couple earning $100,000 in 1987 will pay $651 in 3 percent surtax but would pay $1,121 to a high-income surtax. A single person earning $100,000 will pay $693 in 3 percent surtax but would owe $1,260 in high-income surtax - a difference of $567.

The reason for the difference between upper-income two-earner couples and the other types of family at the same affluent income level is that each spouse in the two-earner family earns less than the sole earner in the other households. The high-income surtax's bite increases as earnings (and thus basic federal tax) rise and it costs well-off taxpayers more than the 3 percent surtax.

Table 17

Federal Surtaxes, Two-Earner Couple With Two Children, by Earnings and Option, 1987

Family Earnings	Actual Three Percent Surtax	Optional High-Income Surtax	Actual Less Optional
$10,000	$ 0	$ 0	$ -
15,000	19	0	19
20,000	40	0	40
25,000	66	0	66
30,000	92	0	92
35,000	120	0	120
40,000	149	0	149
50,000	198	0	198
80,000	388	156	232
100,000	530	342	188

Table 18

Federal Surtaxes, One-Earner Couple With Two Children, by Earnings and Option, 1987

Family Earnings	Actual Three Percent Surtax	Optional High-Income Surtax	Actual Less Optional
$10,000	$ 1	$ 0	$ 1
15,000	24	0	24
20,000	50	0	50
25,000	78	0	78
30,000	109	0	109
35,000	127	0	127
40,000	161	0	161
50,000	231	84	147
80,000	463	493	- 30
100,000	651	1,121	- 470

Table 19

Federal Surtaxes, Single Parent With Two Children, by Earnings and Option, 1987

Family Earnings	Actual Three Percent Surtax	Optional High-Income Surtax	Actual Less Optional
$10,000	$ 3	$ 0	$ 3
15,000	27	0	27
20,000	54	0	54
25,000	82	0	82
30,000	113	0	113
35,000	131	0	131
40,000	165	0	165
50,000	235	92	143
80,000	468	510	- 42

Table 20

Federal Surtaxes, Single Canadians, By Earnings and Option, 1987

Earnings	Actual Three Percent Surtax	Optional High-Income Surtax	Actual Less Optional
$10,000	$ 20	$ 0	$ 20
15,000	46	0	46
20,000	74	0	74
25,000	103	0	103
30,000	138	0	138
35,000	157	0	157
40,000	192	19	173
50,000	267	144	123
80,000	503	628	- 125
100,000	693	1,260	- 567

TRENDS IN TAX REVENUES

Table 21 and Figures I and J show trends in federal tax revenues from 1961 to 1990 according to the type of tax. All figures have been converted to 1986 dollars in order to show real trends. Table 22 gives the amounts in actual (i.e., not adjusted for inflation) dollars.

This fiscal year, Ottawa will collect an estimated $81.6 billion from its various taxes. Personal income taxes will contribute $37.7 billion or 46.2 percent of the total, followed by federal sales and excise taxes ($18.9 billion or 23.2 percent), other taxes such as unemployment insurance premiums and energy taxes ($13.3 billion or 16.3 percent) and corporate income tax ($11.7 billion or 14.3 percent of total tax revenue).

The most striking trend is the increasing reliance on personal income taxes. In 1961-62, Ottawa gathered 34 percent of its total tax revenues through personal income tax. This year it will take 46.2 percent of tax revenues from this source and the percentage will increase steadily each year, reaching more than half (50.6 percent) of total tax revenue by 1990-91. Personal income tax revenue will grow an estimated 37.6 percent in real terms from 1985-86 to 1990-91 (from $34.3 billion to $47.2 billion).

Corporate income taxes make up substantially less of the total tax take today than in the past. In 1961-62 corporate income taxes contributed 21.6 percent of all tax revenue but their share is only 14.3 percent in 1986-87. The 1986 Budget forecasts that corporate income tax's share of total tax revenue will rise to 15.4 percent in 1990-91. Corporate tax revenue is expected to grow by 32.9 percent in real terms from 1985 to 1990 ($10.9 billion to $14.4 billion). However Ottawa will continue to collect more than three times as much income tax from individuals as businesses.

Revenue from federal sales and excise taxes will rise by a projected 23.7 percent in real terms from 1985-86 to 1990-91. Their share of total tax revenue will remain around 22 percent. Other taxes' value and share will decline substantially by 1990-91 due to changes in energy taxes.

The numerous measures taken since November 1984, mostly in the May 1985 and February 1986 Budgets, will significantly raise tax revenue and cut government spending. The Finance Minister forecasts federal tax revenue increases of $3.4 billion and net expenditure reductions totalling $6.8 billion in 1986-87, producing a net gain of $10.2 billion. By 1990-91 the various changes will bring in $8 billion more in federal taxes and cut $18.7 billion from federal spending, for a net saving of $26.7 billion.

Table 21

Federal Tax Revenue, by Source, Constant (1986) Dollars, 1961-1990

($ millions)

Fiscal Year	Personal Income Tax		Corporate Income Tax		Sales and Excise Taxes		Other Taxes		Total Tax Revenue	
	amount	%	amount	%	amount	%	amount	%	amount	%
1961-62	$ 8,590	34.0%	$ 5,450	21.6%	$ 9,226	36.5%	$ 1,988	7.9%	$25,255	100.0%
1966-67	11,466	33.6	6,552	19.2	13,638	40.0	2,436	7.1	34,092	100.0
1971-72	22,726	47.4	7,534	15.7	14,581	30.4	3,110	6.5	47,951	100.0
1976-77	30,873	46.2	11,314	16.9	15,561	23.3	9,036	13.5	66,785	100.0
1981-82	31,909	44.5	10,773	15.0	15,079	21.0	13,879	19.4	71,639	100.0
1985-86	34,323	45.2	10,850	14.3	16,900	22.3	13,875	18.3	75,948	100.0
1986-87	37,700	46.2	11,700	14.3	18,900	23.2	13,300	16.3	81,600	100.0
1987-88	40,963	48.0	11,662	13.7	19,277	22.6	13,494	15.8	85,395	100.0
1990-91	47,239	50.6	14,422	15.4	20,899	22.4	10,795	11.6	93,355	100.0
Percentage Change										
1961-1990	449.9%		164.4%		126.5%		442.9%		269.7%	
1985-1990	37.6		32.9		23.7		- 22.2		22.9	

Note: Actual figures have been converted to constant (1986) dollars to show real trends.

Figure I

Federal Tax Revenue, by Source, 1961-62

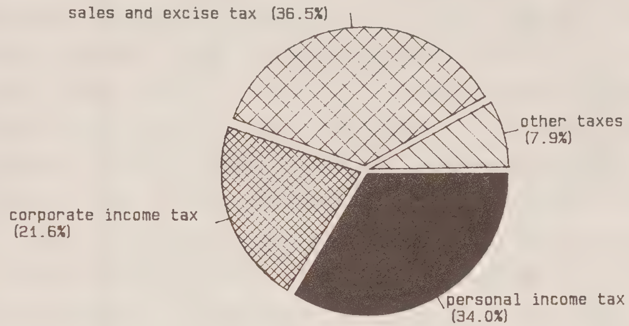


Figure J

Federal Tax Revenue, by Source, 1990-91

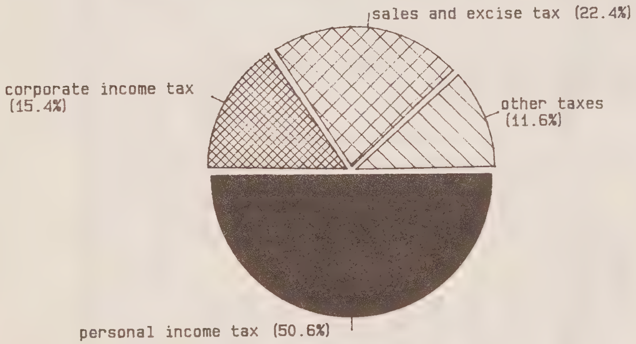


Table 22

Federal Tax Revenue, by Source, Actual Dollars, 1961-1990

($ millions)

Fiscal Year	Personal Income Tax		Corporate Income Tax		Sales and Excise Taxes		Other Taxes		Total Tax Revenue	
	amount	%	amount	%	amount	%	amount	%	amount	%
1961-62	$ 2,052	34.0%	$ 1,302	21.6%	$ 2,204	36.5%	$ 475	7.9%	$ 6,033	100.0%
1966-67	3,050	33.6	1,743	19.2	3,628	40.0	648	7.1	9,069	100.0
1971-72	7,227	47.4	2,396	15.7	4,637	30.4	989	6.5	15,249	100.0
1976-77	14,634	46.2	5,363	16.9	7,376	23.3	4,283	13.5	31,656	100.0
1981-82	24,046	44.5	8,118	15.0	11,363	21.0	10,459	19.4	53,986	100.0
1985-86	32,900	45.2	10,400	14.3	16,200	22.3	13,300	18.3	72,800	100.0
1986-87	37,700	46.2	11,700	14.3	18,900	23.2	13,300	16.3	81,600	100.0
1987-88	42,500	48.0	12,100	13.7	20,000	22.6	14,000	15.8	88,700	100.0
1990-91	54,700	50.6	16,700	15.4	24,200	22.4	12,500	11.6	108,100	100.0

Note: All figures are in actual (current) dollars. Table 21 converts those to constant (1986) dollars.

CONCLUSION

The May 1985 Budget's increases to the child tax credit and the February 1986 Budget's introduction of a refundable sales tax credit will provide modest but welcome supplements to the incomes of poor Canadians. However the Budgets' other changes to child benefits and taxes discussed in this paper - the partial indexation of personal tax exemptions and brackets as well as child benefits, the elimination of the federal tax reduction, the imposition of a 3 percent surtax on all taxpayers, increases in federal sales taxes - will gobble up the gains from the child and sales tax credits, leaving working poor families and individuals worse off in the end. All Canadians but those at the bottom and top of the income ladder will lose disposable income as a result.

FOOTNOTES

1. The February 1986 Budget put no time limit on the 3 percent surtax and provided revenue estimates for the measure for 1990-1991.

2. Calculations were made using a tax/transfer microsimulation model. The following assumptions are used: Earnings increase by inflation which, using 1986 Budget forecasts, is 4.3 percent in 1986 and 3.6 percent each year from 1987 through 1990. In the two-earner families, one spouse earns one-third and the other spouse two-thirds of family earnings. Where applicable, taxfilers claim the personal exemption, married or equivalent exemption, children's exemption, employment expense deduction, and deductions for C/QPP contributions and unemployment insurance premiums. Taxfilers with 1986 earnings above $29,444 pay 7 percent of their earnings to an RPP; those above $49,994 also contribute to an RRSP. Tax deduction limits for RPP and RRSP contributions are as set out in the 1985 Budget and subsequently amended (in 1986, there is no limit on RPP deductions but the old limit on RRSP deductions still applies; from 1987 on we follow the schedule of contribution deduction increases in the 1985 Budget). Unless otherwise indicated, child tax credits and sales tax credits are for the year received, not the taxation year; however we count the November prepayment of the child tax credit (for families under $15,000) in the following calendar year when the rest of the credit is paid. Provincial taxes are averages of basic federal tax as follows: 48 percent in 1986, 49 percent in 1987 and 50 percent from 1988 to 1990. No provincial surtaxes or credits are assumed. Poverty line estimates are by the National Council of Welfare applying Finance Department inflation projections to Statistics Canada's low income cut-offs for metropolitan areas (500,000 or more residents). The estimates (rounded off in the text, tables and graphs) are $10,673 for one person, $14,081 for two, $18,836 for three, $21,705 for four, $25,294 for five.

3. Estimates of federal sales tax increases were prepared for the National Council of Welfare by Richard Shillington, a consulting statistician.

MEMBERS OF THE NATIONAL COUNCIL OF WELFARE

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NATIONAL COUNCIL OF WELFARE

The National Council of Welfare was established by the Government Organization Act, 1969 as a citizens' advisory body to the Minister of National Health and Welfare. Its mandate is to advise the Minister on matters pertaining to welfare.

The Council consists of 21 members, drawn from across Canada and appointed by the Governor-in-Council. All are private citizens and serve in their personal capacities rather than as representatives of organizations or agencies. The membership of the Council includes past and present welfare recipients, public housing tenants and other low-income citizens, as well as lawyers, professors, social workers and others involved in voluntary service associations, private welfare agencies, and social work education.

Reports by the National Council of Welfare have dealt with a wide range of issues on poverty and social policy in Canada, including: income security, medicare, poverty lines and poverty statistics, pension reform, the aged, taxation, the working poor, children in poverty, community economic development, women and poverty, employment policy, single-parent families, social services, nutrition, community organizing, child welfare, poor people's groups, legal aid/legal services, low-income consumers, and poverty coverage in the press.

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